



Eni Petroleum

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April 1, 2005

Department of the Interior
Minerals Management Service
Attention: Rules Processing Team
Mail Stop 4024
381 Elden Street
Herndon, Virginia 20170-4817

Re: Comments on Minerals Management Service "Increasing Base Rentals and Sliding Scale Rentals; FR Vol. 70, No. 40, Page 10111 (March 2, 2005)"

Dear Sir or Madam:

Eni Petroleum Exploration Co. Inc., (Eni Petroleum) appreciates the opportunity to comment on the Minerals Management Service (MMS) proposal to increase base rental payments and incorporate a sliding scale rental payment scheme for future Gulf of Mexico sales. Eni Petroleum is engaged in all aspects of exploration and production activity in the offshore oil and natural gas industry, and a major owner of oil and gas leases in federal waters of the Gulf of Mexico (GOM). As an active operator in the GOM, we are very interested in controlling costs while maintaining the flexibility and ample time to work out joint venture drilling arrangements with other lease holders. While we appreciate the need for rental payments to keep up with inflation, we are concerned about the proposal to implement a sliding scale rental payment scheme.

In regard to the questions asked by MMS in the notice, the following comments are offered:

1. Would fewer tracts receive bids? (Answer: Yes. Eni Petroleum's exploration budget is all inclusive; therefore as rental payments increase, there will be less funds available, resulting in fewer tracts on which to bid.)
2. Would the amount of the individual bids change? (Answer: Yes. Eni Petroleum's exploration budget is all inclusive; therefore as rental payments increase, there will be less funds available to allocate for bonuses.)
3. Would escalating rentals at the rate specified have any effect on the timing of exploration? (Answer: Not likely. The timing of drilling deepwater prospects is driven primarily by the availability of proven technology and the combined circumstances of all of the leasehold owners.)

The concept of increasing rental rates to adjust for inflation is reasonable. This is certainly true in the shallow water areas of the GOM (less than 200 meters) where MMS is proposing to increase rental from \$5.00 to \$6.25, per acre. These rentals have not been adjusted since 1993. Although an argument could be made that the rental increase is greater than the calculated inflation rate since the last shallow water

rental increase, the proposed new rental rate is not excessive and should not have an adverse impact on future leasing activity in shallow water.

On the other hand, we believe the overall increase proposed for deepwater leases to be excessive. When the proposed sliding scale component is added to the base lease rental rate on deepwater leases past their primary term, the actual rental increase exceeds 55.67%. The cost of holding an as yet un-drilled deepwater lease for 10 years would be \$672,480, an increase of \$240,480 per lease. While we understand that the rationale for an increase in base rental rates applies also to deepwater leases, the additional sliding scale component is excessive. If implemented as proposed by MMS, lessees would experience a substantial increase in the cost to maintain their inventory of deepwater leases.

MMS states that part of the justification for suggesting a sliding scale component for deepwater leases is to "encourage exploration drilling in deepwater areas earlier in the lease term." While in theory this may seem logical, the result of the proposed increase could have unintended consequences, such as fewer tracts receiving bids and fewer leases being issued. Historically, in deepwater, lessees have attempted to purchase multiple leases in areas where the greatest potential for hydrocarbon success is expected. In frontier areas, where information is limited, purchasing a significant number of leases in a given geological trend allows lessees to capture additional drilling opportunities should exploration drilling prove successful. However, if the cost of assembling and maintaining these trend lease inventories becomes too great, fewer leases will be purchased.

As stated earlier, adjusting rentals to compensate for changes in inflation is reasonable and expected; however, implementing increases in rentals as suggested for deepwater beyond a fixed rate would be viewed as penalizing those of us who take the risk and invest large amounts of capital for exploring in frontier areas. Our recommendation is that MMS refrain from adding the sliding scale component to deepwater leases and only adjust base rental rates for both shallow and deepwater leases at a fixed rate during the primary term.

We again wish to express our appreciation at being given the opportunity to comment on this proposal. Should there be any questions regarding our comments or suggestions, please do not hesitate to contact the undersigned as noted in the letterhead above.

Sincerely,

A handwritten signature in blue ink, appearing to read "Charles C. Barnes".

Charles C. Barnes
Land Manager-Shelf